

Message Text

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FOR EA/EP

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TAGS: PFOR, AMGT, XE, XP, ECON, HK
SUBJ: EAST ASIA ECONOMIC POLICY REVIEW

REF STATE 73295

A. PER REFTTEL, WE HAVE REVIEWED THE HONG KONG PARM SUBMIS-
SION (PART I, HONG KONG 3131) WHICH IN ITS ECONOMIC ASPECTS
UNDERScores THE SIGNIFICANCE OF HONG KONG TO THE U.S. AS AN
IMPORTANT TRADING PARTNER, A BASE FOR MANY U.S. BUSINESS FIRMS
AND BANKS, AND AS AN AREA OFFERING A STABLE AND HOSPITABLE
ENVIRONMENT FOR U.S. INVESTMENT. IT ALSO SHOWS HONG KONG AS
READILY AND OPENLY RECOGNIZING THATS ITS ECONOMIC WELL BEING
DEPENDS IN A VERY MAJOR WAY ON THE U.S. SINCE THE U.S. IS BOTH
ITS MOST IMPORTANT EXPORT MARKET AND ITS LEADING FOREIGN
INVESTOR. THE MUTUALITY OF INTERESTS INHERENT IN THESE FACTORS
COUPLED WITH THE TRADITIONAL HONG KONG OPEN TRADE AND LAISSEZ-
FAIRE POLICIES ENABLE US TO PURSUE U.S. ECONOMIC
AND PARTICULARLY COMMERCIAL GOALS IN A REMARKABLY
CONGENIAL AND VIRTUALLY FRICTION-FREE ENVIRONMENT. OUR
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AIM SHOULD BE TO PRESERVE THIS HARMONIOUS AND ADVAN-
TAGEOUS RELATIONSHIP BY BEING AS FORTHCOMING AND
RESPONSIVE AS FEASIBLE IN THOSE RELATIVELY FEW AREAS
IN WHICH WE INTERFACE WITH THE HKG ON MATTERS FALLING
WITHIN THE ECONOMIC POLICY RUBRIC.

2. THIS SHOULD NOT BE DIFFICULT SINCE IN THE

MAIN IT REQUIRES THE CONTINUATION OF ALREADY ESTABLISHED PRINCIPLES AND CONCEPTS FOR ASSURING EQUITABLE TREATMENT FOR HONG KONG IN TWO AREAS OF PRIME INTEREST TO IT: TEXTILES AND GSP. ALTHOUGH NEITHER OF THESE IS WITHOUT ITS ROUGH SPOTS THE HKG APPRECIATES THE FAIRNESS AND COOPERATION WE HAVE SHOWN IN THESE PROGRAMS, BOTH IN ASSURING REASONABLE ACCESS TO THE U.S. MARKET AND IN ARRANGEMENTS THAT PROTECT HONG KONG'S RELATIVE POSITION VIS-A-VIS ITS COMPETITORS IN THE ASIAN PACIFIC REGION. ON TEXTILES, THE USG AND HKG APPEAR TO SHARE SIMILAR VIEWS REGARDING RENEWAL OF THE MULTI-FIBER AGREEMENT (MFA) AND ON THE NEED FOR OTHER COUNTRIES TO SUPPORT AN ORDERLY TEXTILE MARKETING SYSTEM. CONTINUATION OF THESE POLICY POSTURES BY THE USG WILL SERVE TO RETAIN OUR AMICABLE ECONOMIC RELATIONS WITH THE HKG.

3. MOST OF THE OTHER SPECIFIC AREAS LISTED IN PARA 3 OF REFTEL ARE NOT PERTINENT TO HONG KONG (COMMODITY AGREEMENTS, INDEXATION FOOD RESERVES, IBRD, AID PROGRAMS, ECT.). WE OCCASIONALLY INTERFACE WITH HKG ON ADB MATTERS AND BELIEVE USG SHOULD CONTINUE GENERALLY TO SUPPORT HONG KONG'S STATUS AS AN LDC MEMBER AND OCCASIONAL BORROWER. WE UNDERSTAND ALSO THAT THE HKG IS CURRENTLY STUDYING THE DESIRABILITY AND FEASIBILITY OF AN AGREEMENT WITH OPIC AND OUR ASSUMPTION IS THAT USG WOULD BE READY TO PROCEED ON THIS IF HKG CHOSE TO PURSUE IT.

4. WITH RESPECT TO REGIONAL ECONOMIC OBJECTIVES AND LIMITED OFFICIAL USE

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POLICIES, WE HAVE ONLY LIMITED REMARKS TO MAKE. LEAVING THE PRC ASIDE, THE REGION IS COMPOSED OF TWO GROUPS: THE INDUSTRIAL EXPORTERS--JAPAN, HONG KONG, SINGAPORE, TAIWAN AND KOREA--AND THE PHILIPPINES. BY AND LARGE THE MEMBERS OF EACH GROUP ARE COMPETING WITH EACH OTHER FOR AMERICAN AND EUROPEAN MARKETS. WITH SOME NOTABLE EXCEPTIONS, THERE IS LITTLE INTRA-REGIONAL TRADE, EVEN BETWEEN THE INDUSTRIAL AND PRIMARY GROUPS. WE SEE THE U.S. INTEREST AS CONTINUING TO SUPPORT AN ACTIVE GROWING TRADE WITH THE EST, IN WHICH ALL THE EA COUNTRIES PARTICIPATE ON EVEN TERMS AND IN WHICH U.S. HAS EQUITABLE ACCESS TO EA MARKETS. SEEN FROM A HONG KONG VIEWPOINT. AN OPEN DOOR TO TRADE WITH THE U.S. IS OUR MOST IMPORTANT ECONOMIC POLICY FOR THIS REGION.

5. ALTHOUGH WE HAVE COMMENTED ONLY SUPERFICIALLY ON GENERAL POLICY GOALS WE ALSO FEEL THAT ANY REVIEW OF OUR ECONOMIC ASSISTANCE POLICIES AS DISTINCT FROM

TRADE POLICIES SHOULD CONSIDER THE "STYLE" WITH WHICH WE CARRY THEM OUT. COUNTRIES OF SOUTHEAST ASIA IN PARTICULAR WILL BE LOOKING TO SEE WHAT ELEMENTS OF OUR POLICIES CAN BE COUNTED UPON TO ENDURE AND BASED ON THEIR ASSESSMENT MAKING JUDGMENTS ON THE OVERALL STEADINESS AND RELIABILITY OF THE USG. TOO OFTEN IN THE PAST THERE HAVE BEEN ANNUAL VARIATIONS IN THE CONTENT OF PROGRAMS DUE TO DOCTRINAL CHANGES WITHIN THE USG, OR THERE HAVE BEEN SUDDEN DECLINES IN THE QUALITY AND NUMBERS OF AMERICAN PERSONNEL ADMINISTERING PROGRAMS BECAUSE OF TRANSFERS AND SHIFTS IN EMPHASIS SO THAT RECIPIENT GOVERNMENT OFFICIALS SOMETIMES LOST CONTACT WITH THEIR AMERICAN OPPOSITE NUMBERS, OFTEN AT CRUCIAL TIMES IN THE LIFE OF A PROJECT THERE HAVE BEEN VARIATIONS IN FUNDS AVAILABLE AS THE BUDGET PIE GETS DIVIDED DIFFERENTLY EACH YEAR. ALSO INCREASINGLY THE PROGRAMS THEMSELVES OR THE GOVERNMENTS OF THE LIMITED OFFICIAL USE

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RECIPIENT COUNTRIES ARE SUBJECT TO CRITICISM IN THE CONGRESS OR THE AMERICAN PRESS FOR CORRUPTION OR INEFFICIENCY OR FOR UNLIKEABLE INTERNAL SECURITY PRACTICES THUS CREATING EVEN MORE UNSETTLING UNCERTAINTIES.

6. WHAT WE ARE SUGGESTING IS THAT SOME TECHNIQUE SHOULD BE FOUND FOR IDENTIFYING THOSE PROGRAMS WHICH HAVE GENERAL CONGRESSIONAL SUPPORT. IN A SENSE THIS WOULD REVERSE THE PRESENT SYSTEM OF LISTING THOSE PROGRAMS WHICH ARE SUBSTANTIVELY MOST DESIRABLE THEN TRYING TO GET AS MANY OF THOSE ACCEPTED AS POSSIBLE. RATHER WE SHOULD FIRST LOOK FOR THOSE WHICH HAVE THE STRONGEST HOPE OF LONG-RANGE NON-CONTENTIOUS CONGRESSIONAL BACKING. ONCE SUCH PROGRAMS HAVE BEEN IDENTIFIED, THEY WOULD FORM THE CORE OF OUR ECONOMIC ASSISTANCE EFFORTS AND ECONOMIC ASSISTANCE STRATEGY COULD THEN BE BUILT AROUND THEM.

7. AS A SECOND STEP WE SHOULD LIST THOSE PROGRAMS WHICH ARE MORE CONTROVERSIAL IN THE U.S. BUT WHICH BOTH THE RECIPIENTS AND THE USG REGARD AS IMPORTANT FOR OVERRIDING POLICY REASONS. BEFORE WE EMBARKED ON TRYING TO GET CONGRESSIONAL SUPPORT FOR THESE, THERE WOULD HAVE TO BE FRANK UNDERSTANDINGS WITH RECIPIENT COUNTRIES THAT THERE WOULD BE POSSIBLE CRITICISMS OF THE PROGRAMS AND CERTAIN POSSIBLE CONDITIONS, E.G., IN RELATION TO HUMAN RIGHTS POLICIES. THE RECIPIENTS WOULD HAVE TO AGREE IT WAS WORTHWHILE. THE WHOLE PROCESS MIGHT WELL RESULT IN DROPPING SOME THEORETICALLY MORE USEFUL DEVELOPMENTAL PROGRAMS IN FAVOR OF THOSE WHICH ONLY

HAVE THE RELATIVE ADVANTAGES OF CONTINUITY. HOWEVER,
BECAUSE THEY COULD BE RELIED UPON, THE RETAINED PRO-
JECTS COULD HELP DEVELOP FIRMER PERSONAL RELATIONSHIPS
BETWEEN AMERICANS AND FOREIGN GOVERNMENT OFFICIALS,
ENHANCING OUR INFLUENCE. OBVIOUSLY THE PROSPECT OF
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CONTINUITY WOULD ALSO BE HELPFUL IN THOSE CASES WHERE
WE WISHED TO USE ECONOMIC ASSISTANCE AS A FORM OF
LEVERAGE ON FOREIGN GOVERNMENTS.

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8. ALL THIS IMPLIES A HEIGHTENED DIALOGUE WITH
CONGRESS AND PRESUMABLY THE H AREA IN THE
STATE DEPARTMENT AND CONGRESSIONAL RELATIONS PEOPLE IN
AID WOULD HAVE TO BE BROUGHT IN TO PROVIDE ASSESSMENTS
ON A COUNTRY-BY-COUNTRY BASIS ON WHAT KINDS OF PROGRAMS
INTEREST CONGRESS ENOUGH TO ASSURE CONTINUED SUPPORT
FOR THE LONGER TERM.

9. PERHAPS THE REVIEW SHOULD ALSO STUDY HOW TO
SIMPLIFY OUR PROCEDURES, THAT IS TO SAY COME UP WITH
A PROCEDURE FOR SIMPLIFYING PROCEDURES. OVER THE YEARS

ONE OF OUR BIGGEST PROBLEMS IN CARRYING OUT FOREIGN AFFAIRS PROGRAMS, PARTICULARLY THOSE INVOLVING ECONOMIC ASSISTANCE, HAS BEEN THE ENORMOUS AMOUNT OF RED TAPE AND PAPERWORK INVOLVED. SOME OF THIS WAS DUE TO INEFFICIENT ORGANIZATION BUT MUCH OF IT RESULTED FROM THE COMPLEXITY OF THE LEGISLATION AND OPERATIONAL REGULATIONS WHICH HAVE GROWN UP YEAR AFTER YEAR WITHOUT BEING TIGHTENED OR RATIONALIZED. THERE ARE NUMEROUS, ONEROUS REGULATIONS WHICH WERE ORIGINALLY DESIGNED TO LIMITED OFFICIAL USE

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KEEP PEOPLE HONEST, PREVENT AID FROM GOING TO COMMUNISTS OR WASTED, ETC., ETC., WHICH ARE NO LONGER APPLICABLE OR REDUNDANT OR IN SOME OTHER WAY DON'T ACCOMPLISH THEIR PURPOSE. THEY DO, HOWEVER, SLOW THINGS UP BY COMPLICATING DEALINGS BETWEEN THE USG AND OTHER GOVERNMENTS AND CREATE A GENERAL IMPRESSION OF AN UNRELIABLE AND UNRESPONSIVE AMERICAN GOVERNMENT. IT WOULD OBVIOUSLY TAKE SEVERAL YEARS TO CARRY OUT A THOROUGH PROCESS OF SIMPLIFICATION OF ALL LEGISLATION CONNECTED WITH FOREIGN AFFAIRS PROGRAMS AND ANY STUDY WOULD HAVE TO BE CARRIED OUT IN COORDINATION WITH CONGRESS ITSELF BUT THE PROCESS WOULD NEED AN EARLY SHOVE BY THE STATE DEPARTMENT. CROSS

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